Timber Business Plan

IMMEDIATE GOALS

The Task Force learned that a number of key issues are threatening the viability of the existing industry and preventing processors from making the gains in efficiency needed to remain competitive. During their second meeting the Task Force agreed that a secure source of timber supply was the number one priority to address. However, it soon became clear that the timber supply problem was one of many dimensions. Not only was physical supply an issue, but the way in which timber was made available, the species and grade of the wood supply, and the ability to plan for the orderly accumulation and processing of the timber were all of critical importance to the industry.

This section of the report describes four immediate issues that have direct implications for the sustained operation of the regions remaining industry players. The Task Force has identified a number of possible solutions to these issues, however, progress on any front will require coordination among several agencies and entities.

1. IMPROVE THE RELIABILITY OF THE TIMBER SUPPLY

A reasonable assurance of raw materials is a prerequisite to a healthy manufacturing industry. However, in recent years, the Tongass timber sale program, the mainstay for the industry, has become increasingly erratic, unreliable and costly. These problems arise from a number of factors, many of which are firmly rooted in policy and management decisions at the federal level. Contributing factors identified by the task force include:

- Administrative appeals and litigation of forest plan and timber sale and environmental documents.
- Completion of environmental analysis, documentation, and public participation for timber sale projects according to forest plan and other requirements of applicable law.
- Obtaining permits, approvals, or consistency findings by other agencies. Over 30 different permits, approvals, concurrences, or consistency findings may be involved in any given timber sale. Frequently, adjustments are made to the timber sale package to satisfy the reviewing agency requirements which delays and reduces the volume to be sold. Appendix L includes a list of these requirements.
- Weather conditions prevent field crews from accessing sale areas resulting in delays in completing sale preparation work.
- Diversion of staff to higher priority work such as emergency fire-fighting or other disaster-relief work.
- Loss of staff or critical special staff skills due to retirements, job changes, lost time in recruiting and moving new people into position.
- A continual evolution in management strategies to accommodate new information on wildlife viability and multiple use mandates.

- Poor sale economics including: expensive bonding requirements, inefficient sale layout, high cost of accessing unroaded areas, inaccuracy of timber cruise data, increasing use of expensive logging systems (i.e., helicopter logging), faulty appraisal data, and decreasing log size.

Potential Solutions Identified by the Task Force

a. The Forest Service should offer multi-year timber sales of appropriate size to encourage long-term investment in value-added processing.

The steps for offering a timber sale with a term of up to 10 years are the same as the steps for offering a sale with a shorter term. Additional contractual requirements must be considered however, such as a provision for scheduled rate redetermination. Further, Forest Service regulations provide that a timber sale cannot exceed 10 years in duration with a very limited exception (36 CFR 223.31). Therefore, if the original contract term was for the full 10 years there would be no ability to extend the term or to adjust the term regardless of the need. [Letter from Janik to Roberts, dated 1/6/97]

b. The Administration and the Regional Forester should support a community-based focus for specific Southeast Alaska timber sales.

The timber industry in Southeast Alaska must have a stronger and broader base of public support across the state and the nation. Although it is still a concept in evolution, many people across the Southeast panhandle and the nation are exploring the idea of community-based forestry as a means of building this support and by having a say in what local forest management will look like in the future. It is an intuitively appealing approach in that "community" is a concept that can bring people together to reestablish productive communication at the local level. This "bottom-up" strategy has the potential to foster both a better business environment and better forest stewardship. It requires responsiveness to three different types of communities:

1. "Local communities" like Ketchikan, Gustavus, Wrangell, and Tenakee Springs;

2. "Communities of interest" which is a term for groups of citizens who may not live in the same place but share a common interest, such as environmentalists, company shareholders, unions, or timber industry business organizations;

3. The "ecological community(ies)" of which human beings and all living things are a part.

Now and in the foreseeable future, the management of public forests is going to require proficiency in the art of community-based forest stewardship. While there are countless techniques and a vast quantity of data to assist us in this effort, perhaps the most important guidelines are "humility" and "respect."

Community-based forest management minimizes community-to-community inequities. For example, some communities have expressed concern that they are experiencing more of the negative impacts of timber harvest and very little benefit in terms of jobs and income. In planning for the future, a mechanism must be in place for industries and timber suppliers to interact earlier and more often with affected communities to identify areas of mutual benefit.

To maximize public support or acceptance of any particular timber harvest strategy, is would be helpful to pay close attention at the outset to the specific place where the timber is to be harvested in an effort to reduce on-site conflicts and minimize falldown. This concept means that the forests of Southeast cannot be managed as if a single regional management strategy could be applied to every acre. Site-specific information, careful attention to the unique attributes of each watershed, island, or inlet, and respect for local knowledge are becoming increasingly important for successful project implementation. Large-scale planning efforts, while necessary, are not sufficient in successfully implementing programs that will cause enduring changes in specific places. This could include a full and responsive public process including stakeholder groups, round-table discussions, mediation, etc., among all the parties.

c. The Forest Service should modify its appraisal process by the end of 1997 to encourage in-state manufacturing of cedar products and be more responsive to current market conditions.

The market price for exportable Alaska logs is established by out-of-state manufacturing facilities who purchase a certain size, species, and grade of log and manufacture that log to a specific product for sale into a niche market. Because of their physical location in relation to the sales outlet, long term relationships established in the marketplace, lowest possible manufacturing costs due to a uniform log mix and equipment designed specifically for the manufacture of that log to a narrow spectrum of sizes, these well-established operators are very competitive.

Fencing manufacturers in Washington are purchasing a specific grade of red cedar logs from Alaska and are barging them to ports in Washington where they are then loaded and trucked to inland facilities for manufacture to fence boards. Higher grade logs are purchased and manufactured into a variety of products for decks, railings, trim and other home enhancement projects. As the supply of cedar from Canada and the Pacific Northwest has diminished, the demand for Alaska's cedar logs has increased along with their price. The high prices have pushed the value of the cedar stumpage to the point where the exportable cedar component of the timber stand carries the harvest cost of the other species.

A policy that encourages the manufacturing of cedar logs in the region is one way to increase timber jobs without increasing total harvest. However, the

existing mechanism the Forest Service uses to promote local processing—the in-state manufacturing credit—has not been effective. The Forest Service has been in the process of revising its export policy for several months. It is time to commit to a plan to phase out cedar export and develop the capability to manufacture this valuable species within the state. The challenge is to find a mechanism for doing this that will not adversely impact the existing industry.

Several companies currently enjoy a profitable round log export business in conjunction with the harvest and processing of spruce and hemlock. They are obviously reluctant to see a change in federal export policy. There is a need for a transition period to allow the prospective cedar manufacturer to invest in infrastructure and establish credibility and markets. Hence, an immediate ban of all cedar export is not to anyone's advantage. A phased approach to the export policy will allow the industry to install equipment and examine markets and at the same time, allow the Forest Service to collect the data necessary to value cedar for domestic processing.

The new policy should also allow markets and manufacturing capability to dictate which grades and species are exported in the round and which remain in the state for primary manufacture. It may very well be that the best form of transport for the highest value fiber, such as yellow cedar peelers and #1 quality logs, is in round log form to prevent damage and price erosion. At least until markets are developed, the purchaser should have the flexibility to determine where the highest returns can be captured.

A possible approach is for the Forest Service to set a goal of eliminating the cedar export in five years. Beginning immediately, red cedar logs would be appraised using rough-sawn red cedar lumber prices from the Pacific Northwest (approx. $700/mbf l.t. or $640/mbf l.s.). These would serve as proxy values until local producers established Alaskan markets and a more precise method of valuation was developed. Flexibility would be built into the system by allowing purchasers to choose which logs would be exported at an additional export fee of $445/mbf. Both the export fee and the appraised lumber price would be indexed to third party reported price averages. The table below illustrates this evaluation process for red cedar. A similar procedure could be followed for yellow cedar, although it may be more difficult to locate the data series for this species.

	CURRENT POLICY - EXPORT LOGS	POLICY DESCRIBED ABOVE	
		EXPORT LOGS	LUMBER MANUFACTURE
End Product Selling Value ($/mbf log scale)	$850	$850	$640
Manufacturing Cost	(-) $95	(-) $ 95	(-) $330
Export Fee	———	(-) $445	———
Net (profit, logging cost, stumpage)	$755	$310	$310

As this analysis indicates, at least in the short term, returns to the government will be reduced under this policy. Logging costs alone will erode the $310/mbf margin associated with domestic processing of the cedar species. In contrast, the current system yields a return of roughly $360/mbf to the federal treasury. This trade-off between local employment and returns to the treasury was generally accepted when the primary processing requirement was placed on spruce and hemlock. Given the steady erosion of federal timber supplies in the region, the need for completing and implementing a revised export policy is particularly acute.

d. The state, federal, and local governments should work together to find ways to compliment the Tongass timber supply with timber from other public ownerships. Specifically, the state should work with the University of Alaska and the Mental Health Land Trusts to develop creative mechanisms to make log supplies available to local mills while adhering to fiduciary mandates.

Using its unique relationship with the University of Alaska and the Mental Health Land Trusts, the state should explore creative mechanisms for making university and mental health timber available to the emerging value-added industry. While the university and the mental health trusts have fiduciary obligations to their respective beneficiaries, they also have certain management flexibility that may lend itself to this type of creative problem-solving process. A solution of this nature could supply up to 30 MMBF of Southeast Alaska timber to the value-added industry over the next 10 years, and could also address conservation concerns associated with some of this land.

If the state can develop successful approaches to the local use of university and mental health trust timber, all or portions of these plans may be attractive to Alaska Native corporations, thereby leveraging an even larger supply of timber for value-added purposes.

2. IDENTIFY USES FOR LOW-END LOGS

There are roughly four economic categories of timber characteristic of Southeast Alaska's forests. These include: 1) appearance grade (clears); 2) structural grade (big logs, tight knots, no defect); 3) construction grade (small logs, fine grain but frequent black knots, from short trees, commonly with heart rot),; and 4) and utility grade logs (fiber). The third category is commonly referred to as the "low-end" material. It is the portion that competes in good markets with Coast grade No. 3 hemlock in Washington, or Canadian grade No. 4, radiata pine from Chile or New Zealand, and larch from Russia. U.S. No. 3 sawlogs are 6-12 inches in diameter; Canadian No. 4 are 4-14 inches. Both grades are considered to be competitive with "K-sort" (Korean sort) logs of the U.S. west coast. (Flora, 1985)

Because the commercial timber supply in Southeast Alaska is derived almost exclusively from old-growth forests, wood quality and lumber recovery tend to be offset by significant levels of defect (decay, knots, shake, etc.). While there are many opportunities for selling or manufacturing the higher value logs, the extent of lower value timber in the wood supply is still hotly debated. The figures of 35 to 55 percent are used to describe the level of timber cut that is not considered suitable for manufacture by the existing industry in the region. Southeast Alaska must develop economically-viable, environmentally-sound uses for high-end logs, maximize the value-added processing on low-end logs, and continue to identify niche markets in both.

Potential Solutions Identified by the Task Force

a. Distribute the results of the Forest Products Laboratory's study on recovery rates for low-end logs.

The representatives of the Forest Products Laboratory (FPL) of Madison, Wisconsin spoke to the Timber Task Force at its January 17 meeting. In their discussion, the FPL representatives noted that wood supplies viewed as "low value" by mills in Southeast would likely be considered quite valuable by mills in other parts for the country. It was their considered opinion that the "pulp log problem" was largely an issue of matching technology to the resource. Task Force members requested assistance from the lab to assess the potential recovery from low end logs stockpiled throughout Southeast.

The FPL arranged to conduct a grade recovery study with the cooperation of a local mill. During the week of April 7, 1997, 414 low-end hemlock logs were processed at the Viking mill in Klawock. The logs had small end diameters from 5-36 inches, with the bulk of the inventory (67.4%) being less than ten inches in diameter.

The first 21 bundles of logs on the deck were scaled and graded by a grader from the Gray's Harbor Log Scaling and Grading Bureau. Gross log scale (Scribner) was 39.4 MBF. Net scale was 21.6 MBF. About 95 percent of the logs in the bundle were hemlock. Spruce logs in the bundles were not included in the study. Logs less than 14 feet in length were also not included. Only about 3 percent of the logs were less than 14 feet long. As intended, the log bundles contained a variety of log grades.

LOG GRADE	NUMBER OF LOGS	PERCENT
No. 2	15	3.7
No. 3	159	38.9
No. 4	204	49.9
Utility/Cull	31	7.5

The logs were physically sorted prior to sawing and processed through the mill one grade at a time. The mill was instructed to cut for 2-inch thick dimension in 14 foot lengths, but otherwise to follow their normal practices. Target lumber sizes were 2x4, 2x6, and 2x10. The rough, green lumber was graded by a Quality Supervisor from the Western Wood Products Association, and the lumber grades were tallied by log grade and lumber width. The following results are reported for those pieces that made a given lumber grade in the Structural Light Framing/Structural Joist and Plank grading system. More detailed analysis will be completed after the lumber is dried, surfaced, and tested in Madison, Wisconsin.

LUMBER GRADES	NUMBER OF PIECES			PERCENT OF TOTAL		
	2x4	2x6	2x10	2x4	2x6	2x10
Select Structural	43	106	19	5.6	10.9	15.3
No. 1	134	243	26	17.4	25.0	21.0
No. 2	310	344	61	40.4	35.5	49.2
No. 3	281	277	18	36.6	28.6	14.5

b. Establish the complete utilization of all harvested material as a federal policy in response to evolving manufacturing practices.

c. The federal government should establish a new timber export policy by the end of 1997 to minimize exports and encourage in-state processing of timber from federal lands.

d. Explore opportunities to design sales to selectively harvest timber while adhering to sound silvercultural practices and ensuring the full protection of other resources.

The Forest Service will be considering the selective removal of trees as one of the silvicultural prescriptions to be used to accomplish resource management objectives. Unless there are resource requirements for the higher value trees to remain, they will likely form the basis for individual tree selection under alternative harvest methods. Although the choice of regeneration method will be based on site specific analysis, selective harvest will be especially applicable in areas that are visually sensitive.

Selective harvesting's main benefit is that it minimizes visual impact. Clearcutting provides certain benefits that are important from a silvicultural perspective. Some of these considerations include:

- Control of dwarf mistletoe, a disease that almost exclusively infects western hemlock.
- Elimination of the risk of blowdown of residual trees.
- Elimination of the risk of logging damage to residual trees. The tree species found on the Tongass are thin barked, easily damaged during timber harvest operations, and susceptible to heartrot and other diseases.
- Encouragement of germination and growth of Sitka spruce, a tree species that is more shade intolerant than western hemlock (Tongass Land Management Plan Draft Revised Supplement, March 1996).

Due to the very limited research and experience with methods other than clearcutting in Southeast Alaska, the effects of widespread implementation of alternative harvest methods, such as selective harvest, cannot be quantified or predicted with high degrees of certainty. The Forest Service has initiated research (Silvicultural Alternative to Clearcutting in the Old Growth Forests of Southeast Alaska) to test other regeneration methods.

For the most part, helicopter logging will be required for selective logging, although some cable or shovel logging is probable. Helicopter logging becomes prohibitively expensive when yarding distances increase beyond one mile from a road or landing area. In some cases, the marginal revenue generated from the more valuable timber may be eroded by the higher logging costs associated with the selective harvest method. In establishing a policy on selective logging, the following questions must be answered:

1. How much volume could be made available for harvest using only the existing road system?
2. What kind of selling values must be obtained in order for selective logging to be an economical option?
3. What are the long-term, silvicultural implications of selective harvesting?
4. What are the benefits of selective harvest? Do they outweigh the risks?

3. PROVIDE A DEPENDABLE WOOD SUPPLY TO SMALL OPERATORS

For small timber operators, the pulp mills in Southeast Alaska represented both obstacles and opportunities. Because the pulp mills' long-term timber contracts made them top priorities for the Forest Service's timber program, the small operators had difficulty getting the agency to prepare small timber sales that met their needs. And although the pulp mills provided an outlet for lower quality logs, they dominated the domestic market for those logs, resulting in significant influence over the regional utility log market. Some small timber businesses took advantage of the pulp mill timber contracts by purchasing cedar logs from the pulp company sort yards or by harvesting small amounts of timber along the roads built by the pulp company contractors. The loss of both pulp mills and the general reduction in logging operations region wide has affected wood availability for these smaller firms.

For example, western red cedar (low grade/cull/utility logs), for the last 7-9 years, was readily available for purchase at the KPC sort yard in Thorne Bay. Approximately one-to-three million board feet per year of this type of material accumulated annually as a result of the centralized scaling location for all of KPC's offerings. As a result of the reduced harvest during 1996, very little cedar volume has been generated. In addition to the lack of harvest, KPC has been utilizing Puget Sound log scalers in the woods to reduce the amount of cull/utility cedar delivered to the sort yard. This began in September 1996 and it is estimated that less than 500 MBF is left scattered along roads/units in the current operating areas.

Components of a region wide solution may include log sort yard sales, an effective program of small and very small timber sales, and a careful look at the most effective way to utilize logging roads for a variety of timber purchasers.

The Thorne Bay Ranger District is making a concerted effort to provide wood to small timber operators. The District's small sale program is designed to take advantage of opportunities such as blowdown, cedar salvage, and isolated timber patches. The intention is to advertise a total of 5,000 MBF per year and to provide the following mix:

- *About 10 cedar salvage sales totaling approximately 1,000 MBF*
- *About 10 small sales averaging approximately 100 MBF and totaling approximately 1,000 MBF*
- *About 10 small/moderate sales averaging approximately 300 MBF and totaling approximately 3,000 MBF*

District Ranger, Steve Kimball has been holding meetings with the small timber operators on the island to determine how to best meet their needs from the Forest Service timber program. The meetings have been well-attended with at least 12 operators taking time out from their workday to take part in the discussion. Another meeting will be held in the fall to again survey operators needs and to discuss sort yards and progress on action items from earlier meetings. Summary notes are prepared from each meeting and available from the District office at (907) 828-3304.

State foresters have also been working hard to get sales out to small, local timber businesses. During (State) FY 1997, DNR's Division of Forestry has signed 20 contracts with a dozen Alaskan businesses from Ketchikan to Haines totaling 4.5 MMBF. Another dozen contracts were scheduled to be finalized before the end of June, bringing the total annual sales volume to 16 MMBF. Recent accomplishments of the state's program include:

- *Four sales on Wrangell Island to Pacific Rim Cedar in Wrangell*
- *One sale on Mitkof Island to The Mill, Inc. in Petersburg*
- *Ten sales to local operators on Prince of Wales Island*
- *Preparation of ten sales on Mitkof, Prince of Wales and Revillagigedo Islands to be offered next year along with an additional sale in the Haines State Forest*
- *Preparation of a beach log salvage license for Herring Bay Lumber in Ketchikan*

Potential Solution Identified by the Task Force

a. Offer logs for sale at community/local sortyards.

In southern British Columbia the government-operated Lumby Log Sort Yard near Vernon holds weekly, open-to-the-public log auctions about nine months of the year. The main source of logs for the Lumby Sort Yard is the B.C. Vernon Forest District, where the Ministry of Forests identifies the trees which will be harvested, and contracts to have those trees cut and transported to the yard. Logs from other sources are also brokered by the yard.

At the yard, logs are divided into "sorts" by species, quality, etc. Presently there are 47 separate sorts at Lumby, where about 13 mmbf (scribner) has been auctioned during each of the two years the yard has been in operation. The yard also features wood "certified" by the Silva Forest Foundation as being harvested in an ecologically sound manner. The intent of the log auctions is provide local operators with access to local timber in order to foster a more competitive forest products industry in British Columbia.

At an October 29 meeting, the Governor's Southeast Regional Timber Industry Task Force agreed in principal to support the establishment of a similar sort yard/public auction facility in Southeast Alaska. The Task Force realizes that such a facility would by no means solve all of the timber industry's problems in this region, but it does have the potential to be part of a reliable supply of timber to support the development of a value-added, sustainable wood products industry.

The Task Force requests that the Forest Service take the lead on this, and work with the various State agencies, community organizations and other groups which may have interest in or concerns about the project. The goal should be to encourage the self supporting and sustainable log sortyard which compliments the rest of Southeast Alaska's economy and culture.

The following questions need to be examined:

1. What size sortyard would be most efficient?
2. How will the sortyard will be financed and operated?
3. What is the best location(s) for the sortyard?
4. What is a sustainable supply of timber for the sortyard? The timber supply should be in reasonable proximity to those communities which will most benefit by the existence of the sort yard.

4. ENCOURAGE CAPITAL INVESTMENT IN MANUFACTURING FACILITIES

The timber industry is in large part a seasonal industry --- in many ways similar to the Alaskan fishing industry. Large sums of working capital must be available for the start-up of logging operations each season. This capital is not converted into inventory or receivables or recovered until long after it is spent. Moreover, many forms of collateral are of little use as security since they are specific to the logging operation being conducted.

Major production and conversion facilities need to be financed over the long term, just like any other long-term capital construction project. Projects such as sawmills and sawmill modifications, pulp mill modifications, central docks and sort yards, chipping and chip loading facilities, and any investment in production facilities for new products are typically financed over many years. Long-term financing requires equity, as well as security interests in the facility being constructed or upgraded.

There are many examples in Southeast mills where new equipment and upgrades could reduce manufacturing costs, increase the quality and quantity of products manufactured, and enhance the competitive position of Alaska's wood product manufacturers.

The task force heard presentations from several entities that are in the business of making money available to entrepreneurs and investors. Given the loan and grant programs already in place, another new program would not solve the fundamental problems faced by smaller operators in the region.

A bigger issue is the lack of business planning assistance and the risk associated with many proposed timber related projects. From an investors point of view, good projects have: 1) clear business plans, 2) feasible economics, and 3) a significant private sector match. There must be some personal financial risk involved when third party participation is needed for capital investment. However, some small operators may be undercaptitalized and unable to put up the 25 percent loan-to-value ratio typically required by the banking community. The state and federal governments could provide financial incentives for small operators facing these hurdles.

Potential Solutions Identified by the Task Force

a. State funding agencies and financial institutions should hold an interagency meeting to determine how they can best assist the development of a value-added timber industry in Alaska.

The Alaska Science and Technology Foundation and the Alaska Industrial Development and Export Authority are key agencies that, in cooperation with financial institutions and other organizations, could play a significant role in assisting the continued development of Alaska's value-added timber industry.

According to the ASTF executive director, there is a shortage of solid project proposals for ASTF that meet the three criteria listed above. While this option doesn't relieve the prospective business owner from the obligation of taking personal financial risks, ASTF may make funding available for projects viewed as higher risk due to their innovative nature.

AIDEA also requires owner equity and shared risk, and will only guarantee loans that are financially viable. Still, with its guarantee programs and financial expertise, AIDEA could have considerable influence on the start-up and growth of value-added companies.

A meeting would allow for the sharing of knowledge and enable the participants to focus their expertise on a specific subject, developing a plan to address financing for value-added operations.

b. An industry working group should be formed to identify specific gaps in infrastructure that are hampering further development of the value-added industry.

The industry working group would be tasked with identifying places where lack of infrastructure is a key constraint on industry viability. For example, the lack of roads, sewers, water, ports, docks, electric power, etc. may be limiting the potential of an otherwise successful operation. Places where public infrastructure can make a significant difference to the viability of a private timber venture should be identified and the necessary enhancements described in detail.

This planning effort would provide detailed backup information for public infrastructure capital funding requests.

c. Business planning services should be an enhanced priority of state and local assistance programs.

Many proposed timber related projects have a high degree of risk and lack the benefits of skilled business planning. Alaska has many entrepreneurs with intriguing ideas, but they cannot move forward without clear business plans, feasible economics, and private sector investment. In their business development outreach programs, state and local governments should provide local people with the opportunity to learn about business planning so that they can acquire some of the skills necessary to realize their goals.

d. A permanent office of value-added wood products should be established within the Department of Commerce and Economic Development, funded and staffed at a level commensurate with similar programs in states and regions that compete with Alaska. The office should be given a mandate to assist the industry with making a transition, worker retraining, marketing, and other issues.

Alaska's forest products industry is in a transition period. It's successful outcome depends, in part, on consistent and steady assistance from the state. Knowledgeable people, with an excellent overview of the industry, need to be available in state government to provide guidance, information and access to private expertise on value-added opportunities, technology, and marketing, as well has help ensure the adoption of government policies that are favorable to the forest products sector.

Many of Alaska's competitors in domestic and international markets benefit from this kind of support. Within current budget constraints, the state should make available the assistance that can make a big difference to Alaska's small to medium forest products companies.

ON-GOING GOALS

With regard to the future development of the industry, the task force identified a number of issues that sustained attention if the industry is to regain market share and/or expand into new product niches. This section of the report describes three priority areas where more intensive effort is needed to increase the manufacture of value-added wood products in Southeast Alaska on an on-going basis.

1. IDENTIFY A STEADY AND RELIABLE LONG-TERM TIMBER SUPPLY FOR LOCAL PROCESSORS.

Mechanisms to foster consensus on the appropriate location, scale, and method of timber harvest should actively be pursued. If the multiple uses of the forest are to truly co-exist, new mechanisms to work out differences of opinion and find common ground must be supported and encouraged. The Forest Service has expressed an interest and intent to embrace a "collaborative planning process" but the "devil is in the details." Suggestions for moving forward include:

a. The Forest Service and the state must be given the resources necessary to adequately monitor management actions. For example, the Alaska Department of Natural Resources and the Alaska Department of Fish and Game need to be given the resources to continue their involvement in scientifically-based stream monitoring of impacts to fish, wildlife, and streams.

Aside from the fact that monitoring is required by regulation, it also serves as a cornerstone for adaptive management. A proven track record of project monitoring would help reduce the demand for comprehensive and detailed information and analysis to be included in the environmental documents currently prepared by the Forest Service. A demonstrated commitment to project monitoring, would likely help to restore public faith in agency decisions, and reduce the rhetoric underpinning some policy debates. It could also serve to clarify the interactions among resource uses and to document the cumulative effects of a series of actions over long periods of time.

All these things will give the public better information from which to make a judgement about the acceptability of land management decisions.

Without a track record to fall back on, virtually every decision takes the Forest Service down the same path of resistance from an increasingly well-informed public. This resistance manifests itself in appeals, litigation and ultimately, an inability to deliver the timber supply that has been planned by the agency and expected by the industry.

b. State and federal agencies, and industry representatives should investigate the merits of third party certification of sustainable forestry in Southeast Alaska.

Wood certification or eco-labeling is an idea that began on an international level to help curb the deforestation of lands around the world. Wood is certified by a number of independent agencies, and certification standards cover a range of forest values, from sustained-yield of timber to wildlife habitat protection to economic and cultural sustainability for forest-dependent communities. Wood certification may be an effective tool that can help consumers make informed wood purchasing decisions and thus promote responsible forest management. It does so by harnessing market forces rather than increasing regulations.

The Forest Stewardship Council (FSC) is a nonprofit group formed four years ago to accredit certifiers and coordinate certification around the world. The FSC approach is characterized by independent, third-party evaluation, in which timber producers have to meet specific performance standards in the field. In addition to the socioeconomic test, there is a battery of questions relating to the timber harvest and the effects of timbering on the forest ecology.

So far, four certifiers have been accredited by FSC, two in the United States and two in the United Kingdom. Scientific Certification Systems (SCS), based in Oakland, California has certified ten forest operations in Central, South, and North America and Northern Europe over the past six years.

The other FSC-accredited certifier in the U.S. is the Rainforest Alliance in New York City. Under its SmartWood program, the Rainforest Alliance has established the SmartWood Network, an international alliance of region-specific nonprofit organizations working on environmental, educational, and community issues.

Despite the fact that the certification process adds some cost to the wood, the market for products made of certified wood is improving. Retail giant Home Depot, for example, recently began carrying a line of shelving made from Scientific Certification Systems (SCS)-certified Collins Pine Company wood. In Maine, the Seven Islands Land Company provides SCS-certified wood for Maibec cedar shingles, dimension hardwood lumber, and hardwood flooring which is distributed nationwide.

So far, however, U.S. consumers appear to be unwilling to pay a premium for certified wood. To compete in the marketplace certified products must still be priced competitively with standard wood products. This means that the additional cost of certification, $10,000 to $100,000 or more, must be borne by the timber producer. Although it does not yet attract a price premium in the U.S. certification allows manufacturers to capture market share by differentiating their product from the competition.

Before any Southeast Alaska forest lands can be certified, regional standards must be developed. Currently, the Pacific Certification Council is developing standards for the Pacific coastal temperate rainforest, including British Columbia (the Lumby sortyard carries wood certified by the Silva Forest Foundation), Washington, and Oregon. If groups in Southeast Alaska are interested in pursuing certification as a possibility, it might be possible to have the land base for these standards expanded to include Southeast Alaska. A potential hindrance to wood certification in southeast Alaska is that some standards might be "too green" for some and not "green enough" for others.

c. State, federal and private timber managers should continue to work together to develop region-wide maps of the timber resource in Southeast Alaska at a scale that will be useful to local planners. The maps should be shared with communities and private industry in a timely manner.

Members of the task force and government agencies (USFS, DNR, DCRA, DCED, DFG) should continue to collaborate to produce maps showing the status of the timber base for the entire region, including all ownerships. This will help to answer the questions about what timber is available for harvest now and where it is located. The Forest Service, DNR, Sealaska, and Interrain all have the technology and the proven ability to prepare maps using a common GIS system — ArcInfo. The scale of the maps must be appropriate for comprehension and visual use.

Interrain Pacific (IP) is a local nonprofit group that produces "public access" GIS maps, thereby allowing citizens, groups, agencies, and others to make use of the computerized geographic data. The Department of Fish and Game has contracted with IP in the past, as part of their analysis of the Tongass forest plan.

IP uses Forest Service and DNR Global Information System (GIS) data to construct comprehensive and comprehensible maps of the Tongass. They have done several Tongass maps which show forest resources on both Forest Service and Native Corporation lands. Tools such as the maps constructed by IP would be invaluable for communities and others interested in figuring out where a reliable source of timber will come from.

There is a prior recognition of the usefulness and need for such maps. In the Department of Commerce Marketing Alaska report, under the title "Forest Products Sector" it is stated that the "Top Priority 1" is to develop and maintain a consolidated inventory of forest resources, utilizing the latest techniques available—GPS, GIS, and that the participation of federal and Native Corporations should be sought.

d. Alleviate at least part of the uncertainty and gridlock over timber supply through a cooperative effort directed at identifying "core" timber supplies.

It may be possible to differentiate the aggregate regional timber supply into two or three categories on the basis of general acceptability to a spectrum of interests. While the allowable sale quantity (ASQ) would set the ceiling or upper limit, the core timber supply would equate to the component of the supply with the strongest support/acceptance, hence the supply most readily available to loggers, mill owners, and investors.

The "core" timber supply would be derived from areas where harvest is permitted under current management plans. This timber supply would be considered by bidders and bankers as being "low risk" or "very secure" in that it would: 1) have potential net value to timber businesses; 2) be legally and ecologically amenable to harvest; and 3) be viewed as an acceptable resource use for the area by local communities and stakeholders. In contrast, the remainder of the timber supply would have some characteristics that made it "higher risk" or less predictable," such as lower wood values, difficult operability, high likelihood of citizen opposition, and so forth.

Simply put, investors and borrowers must know which portion of the timber supply they can bank on, whether the banking involves capital investment in infrastructure or loans for operating costs, and which part of the potential timber supply is more speculative. Identification of the core timber supply would focus on bringing diverse parties to the table to determine the areas of the forest where and how logging activity can occur with least resistance. The more timber supply can be approached in a manner that is place-specific and community-based, the more volume can be added to the "core" or "low-risk" component.

e. The Forest Service should investigate the merits of authorizing multi-year contracts to accomplish multiple land management objectives while providing timber for local mills for high value-added processing.

The Forest Service should look at multi-year sales and land management service contracts for their applicability to the Tongass National Forest.

2. ENCOURAGE SMALLER TIMBER BUSINESSES TO WORK TOGETHER AND TO BECOME MORE COMPETITIVE.

a. Support the development of a small business network or cooperative to provide an economy of scale that enhances marketing, advertising, and technology transfer for its members.

A network will facilitate cooperative marketing, advertising, and technology transfer for the numerous small businesses involved in wood processing in Southeast Alaska. In addition, the network could serve as a clearinghouse for wood supply and provide a contact point for buyers and sellers of small quantities of wood.

The Southeast Alaska region has an impressive number of small timber operators and entrepreneurs; at least one or two can be found in each small community. These family enterprises tend to be isolated from each other both geographically and economically. However, relationships among these manufacturers would allow small businesses to exploit economies of scale through vertical and horizontal collaboration. Expanded relationships with technical assistance providers, timber owners, loggers, sawmills, shipping companies, and equipment suppliers would open up sales opportunities and reduce costs. Without relationships with technical assistance providers, equipment suppliers and dealers, modernization cannot occur. Relationships with honest brokers of advanced technologies can help small manufacturers and communities evaluate opportunities and avoid pitfalls, thereby reducing the risk of change.

Today, in both the United States and Europe, the most successful rural development programs focus their attention and resources on building relationships that make small rural operators competitive. They bring public and private funds together to support trade associations, industrial extension programs, and regional centers for promotion and quality assurance that make it possible for small firms to go head to head with their larger competitors.

These sets of relationships are commonly-called industrial networks. They combine cooperative and competitive incentives to strengthen the regional industry's relationships in global markets. They exploit the inherent flexibility of small enterprises and achieve economies of scale through alliances among competing firms. Research and industrial extension networks introduce dynamic processes of technology development and adoption in to the community of small manufacturers.

The state can and should encourage—with appropriate laws and budgets—the use of a cooperative, association, or similar organization to establish a central point where rough-cut green lumber can be dried, planed, graded and marketed through the services of a cooperative. The cooperative would conceivably be owned and operated by a group of small loggers with semi-portable sawmills providing the supply of softwood lumber. Markets of substance and size will not respond to small suppliers due to their inability to provide a stable supply and consistent quality of the product.

3. PROVIDE THE PUBLIC THE INFORMATION NECESSARY TO MAKE INFORMED JUDGMENTS ABOUT THE ACTIVITIES OF THE TIMBER INDUSTRY IN SOUTHEAST.

a. Develop a partnership for marketing and for disseminating a positive public image of the state's forest products industry's value-added activities. Publish a credible and informative brochure that describes the changes in the management of the Tongass National Forest and the scientific basis for those changes.

The forest products industry is an established and viable sector of Alaska's economy. Over the years, the industry has developed new capabilities and adopted new practices. The effect of these changes has been to answer and diminish many of the controversies that have occupied the industry. The public needs to be kept up to date on this information.

The seafood, mining, and tourism industries in the state have high-quality, widely distributed brochures, pamphlets, and handouts advertising their respective economic sectors. How can the wood products industry produce equivalent informational documents without being viewed as biased or misleading? The message could take the form of a reference guide which provides facts and figures about forests including size, ownership, growing stock over time, species, wildlife, old growth, growth rate vs. Harvest rate, regeneration, forested preserves, employment, payrolls, tax contributions, effects on fisheries resources and water quality, technological advances, productivity, products and product destinations, recycling efforts.

An example of a well-done industry brochure was also prepared for the Oregon Forest Resources Institute (and the Oregon Business Council). It is entitled "Legacy and Promise—Oregon's Forests and Wood Products Industry." This 56-page brochure describes the origins and development of Oregon's wood products industry, explains the current controversy, and provides a concise set of findings and conclusions. The Oregon Forest Resource Institute was created by the state Legislature in 1991 to provide information on forest products and practices in support of the forest products industry. The Institute uses no general fund money but is supported by a dedicated tax on forest products manufacturers. It is governed by a board representing these producers. The information in both documents is thoroughly documented and sourced. Draft manuscripts were also sent for review to state and federal forestry officials, academic scientists and other professionals. This is a practice the Alaska industry could follow to reduce the perception of bias in publications of a similar nature.